

Message Text

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(AGRICULTURE) FOR ACTION
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E.O. 11652: N/A
TAGS: MTN, ETRD
SUBJECT: MTN SUBGROUP DAIRY - EC AND NZ PROPOSALS FOR
INTERNATIONAL DAIRY ARRANGEMENT

REF: GENEVA 11172

1. SUMMARY: THE GATT SECRETARIAT ISSUED ON JANUARY 6 A
REVISED TEXT OF THE NZ AND EC PROPOSALS FOR AN INTERNA-
TIONAL DAIRY ARRANGEMENT. THE NEW DOCUMENT WHICH THE
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SUBGROUP DAIRY HAS AGREED TO CONSIDER AS A WORKING HYPO-
THESIS AT ITS NEXT MEETING CONSISTS BASICALLY OF TWO
PARTS: RATHER SKETCHY PROVISIONS FOR A "COMPREHENSIVE
ARRANGEMENT REGARDING THE DAIRY PRODUCTS SECTOR" AND THE
TEXTS OF THE EXISTING GATT ARRANGEMENTS FOR CERTAIN
DAIRY PRODUCTS WITH PROPOSALS FOR POSSIBLE MODIFICATIONS.
THIS SECOND PART PROVIDES ALSO FOR AN ANNEX WHICH WOULD

INCLUDE THE RESULTS OF BILATERAL OR PLURILATERAL DAIRY NEGOTIATIONS "AS TAKEN FROM THE SCHEDULES" RESULTING FROM THE MTN. A U.S. POSITION ON THIS DOCUMENT AND, MORE GENERALLY, ON OUR FUTURE COURSE OF ACTION CONCERNING NEGOTIATIONS ON DAIRY PRODUCTS IS URGENTLY REQUIRED. DELEGATION COMMENTS ARE IN PARA 11 BELOW. END SUMMARY.

2. THE GATT SECRETARIAT ON JANUARY 6 ISSUED A REVISED TEXT PRESENTING IN MORE OR LESS PRECISE TERMS THE PROVISIONS OF THE EC AND NZ PROPOSALS FOR AN INTERNATIONAL DAIRY ARRANGEMENT. THE NEW DOCUMENT (MTN/DP/W/27/REV. 1) WHICH CONSISTS OF 75 PAGES, HAS BEEN FORWARDED TO WASHINGTON BY COMMERCIAL AIRMAIL. PARAS 3-10 BELOW SUMMARIZE THIS DOCUMENT.

3. THE NEW TEXT OMITTS PREAMBLES AND OBJECTIVES BUT DEFINES THE PRODUCT COVERAGE (ARTICLE I) IN TERMS OF CCCN POSITIONS 0401; 0402; 0403; 0404 AND EX 35.01 (CASEIN). ARTICLE II PROVIDES FOR INFORMATION TO BE REGULARLY COMMUNICATED TO A NEWLY ESTABLISHED "DAIRY PRODUCT COUNCIL". THIS INFORMATION SHALL NOT DUPLICATE THE INFORMATION TO BE COMMUNICATED TO THE MANAGEMENT COMMITTEES FOR MILK POWDER AND BUTTER FAT.

4. ARTICLE III OF THE REVISED TEXT CALLS FOR CONSULTATIONS WITHIN THE FRAMEWORK OF THE "DAIRY PRODUCTS COUNCIL". THESE CONSULTATIONS SHOULD CONSIST NOT ONLY IN AN EVALIMITED OFFICIAL USE

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LUATION OF THE WORLD MARKET SITUATION BUT ALSO IN A REVIEW OF THE FUNCTIONING OF THE ARRANGEMENTS (INCLUDING A REVIEW OF THE OPERATION OF MINIMUM PRICES FOR CERTAIN DAIRY PRODUCTS). IF THE COUNCIL FINDS THAT DIFFICULTIES ARISE OR THREATEN TO ARISE, IT IS TO IDENTIFY POSSIBLE REMEDIAL MEASURES, SUCH AS MODIFICATION OF THE VOLUME OF SUPPLY AND DEMAND OR CHANGES IN PRICES. IT SHOULD BE NOTED THAT THE IDENTIFICATION OR RECOMMENDATION OF SUCH MEASURES DO NOT NECESSARILY ENTAIL ACTIONS AND SHOULD NOT, AT ANY RATE, PREJUDICE THE MINIMUM PRICE PROVISIONS CONTAINED IN THE GATT ARRANGEMENT FOR CERTAIN DAIRY PRODUCTS.

5. ARTICLE IV OF THE REVISED TEXT HAS CAPTIONS FOR SAFEGUARD AND EXPORT SUBSIDIES BUT RECOMMENDS AWAITING THE OUTCOME OF THE NEGOTIATIONS ON THESE SUBJECTS IN THE SAFEGUARD AND SUBSIDY-COUNTERVAIL GROUPS. BY CONTRAST, IT CITES IN FULL THE EC PROPOSAL FOR NOTIFYING AND POSSIBLY CONSULTING ON HEALTH AND VETERINARY MEASURES IN THE DAIRY SECTOR BUT STATES THAT RULES ON PACKAGING AND LABELING SHOULD AWAIT FURTHER EXAMINATION OF THE APPLICABILITY TO AGRICULTURAL PRODUCTS OF THE DRAFT STANDARD CODE.

6. ARTICLE V STATES THAT THE PRODUCTS MENTIONED IN ARTICLE I SHOULD BE SUBJECT TO THE PROVISIONS OF THE PROTOCOLS ANNEXED TO THIS ARRANGEMENT, "WITHOUT PREJUDICE TO THE PROVISIONS OF ARTICLES I TO IV". THIS SEEMS TO MEAN THAT EVEN IF THE OVERALL FRAMEWORK AGREEMENT WERE NOT ACHIEVED, THE PROTOCOLS UNDER THE EXISTING GATT ARRANGEMENTS FOR CERTAIN DAIRY PRODUCTS WOULD REMAIN IN FORCE, THOUGH POSSIBLY MODIFIED AS A RESULT OF NEGOTIATIONS AMONG THE ORIGINAL PARTICIPANTS.

7. ARTICLE VI SETS FORTH IN GENERAL TERMS PROVISIONS CONCERNING CONCERTED DISCIPLINES FOR CHEESES. THE EMPHASIS IN THE UNDERTAKINGS TO BE ENTERED IS ON "ORDERLY AND REGULAR CONDITIONS" FOR IMPORTS AND EXPORTS. HOWEVER, LIMITED OFFICIAL USE

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THE BILATERAL OR PLURILATERAL COMMITMENTS SPECIFYING THE
NATURE OF THE COMMITMENTS (I.E. CONCERTED DISCIPLINES)
"ENTERED INTO ARE TO BE SET FORTH IN ANNEX III TO THIS
ARRANGEMENT". IN OTHER WORDS, THE ARRANGEMENT CONTEM-
PLATES NEGOTIATION OF BILATERAL OR MULTILATERAL DEALS
CONCERNING IMPORT AND EXPORT PRICES AND MEASURES WHICH
WOULD THEN FORM PART OF THE OVERALL ARRANGEMENT. ARTICLE
IV B, ENTITLED "MINIMUM ACCESS COMMITMENTS" STATES THAT
MINIMUM ACCESS COMMITMENTS CONCERNING ALL DAIRY PRODUCTS
OTHER THAN FRESH MILK AND CREAM SHALL FORM PART OF THIS
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ARRANGEMENT.

8. ARTICLE VII ESTABLISHES THE AFORE-MENTIONED DAIRY
PRODUCTS COUNCIL. THIS COUNCIL WOULD EXIST WITHIN THE
FRAMEWORK OF THE GENERAL AGREEMENT. IT WOULD BE SERVICED
BY THE GATT SECRETARIAT AND COMPRISE REPRESENTATIVES OF
ALL PARTICIPANTS TO THE ARRANGEMENT. ARTICLE VIII WOULD
ESTABLISH THE DURATION OF THE ARRANGEMENT AS WELL AS THE
RELATIONSHIP BETWEEN THE ARRANGEMENT AND ITS ANNEXES. IT
STATES THAT "THE ANNEXES SHALL BE DEEMED TO BE AN INTEGRAL
PART OF THIS ARRANGEMENT".

9. THERE ARE THREE ANNEXES: ONE CONTAINING THE "PROTOCOL
REGARDING CERTAIN MILK PRODUCTS"; THE OTHER THE "PROTOCOL
REGARDING MILK FAT"; THE THIRD ONE ENTITLED "RESULTS OF
BILATERAL OR PLURILATERAL NEGOTIATIONS AS TAKEN FROM THE
SCHEDULES ANNEXED TO THE (GENEVA) PROTOCOL AND ANNEXED TO
THE PRESENT ARRANGEMENT" WOULD EMBODY ALL THE SPECIFIC
AGREEMENTS REACHED UNDER THE UMBRELLA OF THE COMPREHENSIVE
DAIRY ARRANGEMENT.

10. THE FIRST TWO ANNEXES HAVE ALTERNATIVE VERSIONS: ON
THE ONE HAND, THE LANGUAGE OF THE EXISTING GATT ARRANGE-
MENT CONCERNING CERTAIN DAIRY PRODUCTS; ON THE OTHER HAND,
MORE ELABORATE AND SPECIFIC LANGUAGE FOR AMENDMENTS IN-
CLUDING ALSO WIDER PRODUCT COVERAGE.

11. COMMENT. IT WILL BE RECALLED (GENEVA 11209) THAT
SUBGROUP DAIRY PRODUCTS AGREED TO MEET AGAIN AS NEAR AS
POSSIBLE TO 15 JANUARY 1978 WITH PRECISE DATE TO BE FIXED
IN CONSULTATIONS AMONG DELEGATIONS. WE ANTICIPATE EC
AND PERHAPS NEW ZEALAND WILL START PRESSING US SOON TO
FIX A MEETING PROMPTLY. AN EARLY MEETING TO CONSIDER THE
NEW SECRETARIAT PAPER WILL BE ESSENTIAL TO THE EC IN ORDER

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TO MAINTAIN CREDIBILITY OF THE EC "OFFER" ON DAIRY PRODUCTS DUE AROUND JANUARY 20 PARTICULARLY IF, AS WE EXPECT, THE EC OFFER IS NOT AS SPECIFIC AS WE WOULD WISH BUT TAKES FORM OF A DECLARATION OF READINESS TO NEGOTIATE WITHIN THE FRAMEWORK OF THE WORKING HYPOTHESIS NOW CIRCULATED BY THE SECRETARIAT. IT IS ACCORDINGLY URGENT THAT WASHINGTON FORMULATE A POSITION ON THE SECRETARIAT DOCUMENT AND DEVELOP A STRATEGY FOR NEGOTIATIONS ON DAIRY PRODUCTS. IN OUR VIEW (AMBASSADOR MCDONALD MAY WISH TO COMMENT FROM TOKYO), THE SECRETARIAT DOCUMENT POSES SOME SERIOUS PROBLEMS FOR THE U.S. BUT MAY AT THE SAME TIME PROVIDE A VEHICLE TO ACHIEVE SOME IMPORTANT U.S. OBJECTIVES AFFECTING TRADE IN DAIRY PRODUCTS. THE KEY PROBLEM FOR US, OF COURSE, IS THE HEAVY EMPHASIS ON PRICE DISCIPLINE AND TRADITIONAL COMMODITY-AGREEMENT TYPE APPROACH, THE APPROACH FAVORED BY MOST MAJOR DAIRY TRADING COUNTRIES AS REFLECTED IN THEIR ADHERENCE TO EXISTING GATT DAIRY ARRANGEMENTS AS WELL AS BILATERAL ARRANGEMENTS WITH EC BASED ON "CONCERTED DISCIPLINE", I.E., RESPECT FOR MINIMUM PRICES. ON OTHER HAND, THE STRUCTURE OF THE SECRETARIAT DRAFT, PARTICULARLY THE NOTION OF AN ANNEX TO INCORPORATE SPECIFIC COMMITMENTS ENTERED INTO BILATERALLY OR MULTILATERALLY, MAY OPEN UP A WAY TO GET AT THE PROBLEM OF DAIRY EXPORT SUBSIDIES. WE WOULD EXPECT EC TO BE MORE AMENABLE TO DISCUSSION AND/OR NEGOTIATION ABOUT DAIRY EXPORT SUBSIDIES IN THE CONTEXT OF AN OVERALL ARRANGEMENT AFFECTING DAIRY RATHER THAN IN THE "GLOBAL" CONTEXT OF SUBSIDIES/COUNTERVAIL, BUT WE RECOGNIZE U.S. SENSITIVITY TO ANY SUGGESTION THAT AGRICULTURAL (OR DAIRY) SUBSIDIES SHOULD BE TREATED SEPARATELY. THE "COMPREHENSIVE AGREEMENT" IS RATHER THIN ON SPECIFICS AND CONSISTS ESSENTIALLY OF INFORMATIONAL EXCHANGE THAT MAY PERHAPS BE HARMLESS BUT ALSO UNLIKELY IN AND OF ITSELF TO DO MUCH TO IMPROVE DAIRY TRADING ARRANGEMENTS. FINALLY, WE WISH TO CAUTION ABOUT SPILL-OVER EFFECT OF U.S. INITIAL REACTION TO THE NEW SECRETARIAT DOCUMENT, PARTICULARLY

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PROSPECTIVE GRAINS NEGOTIATIONS. THE SECRETARIAT DOCUMENT, BASED AS IT IS ON ORIGINAL EC PROPOSAL, IS CLEARLY THE WAY THE EC WANTS TO PROCEED WITH NEGOTIATIONS ON DAIRY; NATURE OF OUR REACTION TO THIS APPROACH IS LIKELY NOT ONLY TO AFFECT WHAT MAY BE ACHIEVABLE IN MTN WITH RESPECT TO DAIRY BUT ALSO HAVE REPERCUSSIONS ON EC ATTITUDE ELSE-

WHERE. A PARTIAL ACCEPTANCE, E.G. ACCEPTANCE OF THE
PROVISIONS FOR INFORMATION AND CONSULTATIONS ALONE MIGHT

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CREATE GOOD WILL AND REFLECT U.S. WILLINGNESS TO SUPPORT
ENDEAVORS FOR STABILIZING WORLD MARKETS. A MORE FAR-
REACHING ACCEPTANCE, I.E. ACCEPTANCE OF THE IDEA OF
CONCERTED DISCIPLINES MIGHT IMPLICITLY LEGITIMIZE THE
STATUS OF THE SECTION 22 DAIRY IMPORT REGULATIONS WHOSE
JUSTIFICATION UNDER THE GATT WAIVER IS BECOMING INCREASING-
LY QUESTIONABLE. FINALLY, ACCEPTANCE OF THE MINIMUM EX-
PORT PRICES FOR NFDN OR BUTTER PRODUCTS WOULD NOT REPRESENT
SUBSTANTIVE U.S. CONCESSIONS BUT COULD CONCEIVABLY
BE USED TO OBTAIN CERTAIN TRADE ADVANTAGES IN REGARD TO
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OTHER FARM PRODUCTS.

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Message Attributes

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